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SUBJECT: LIBERAL PARTY AT ITS LOWEST EBB

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11. (SBU) SUMMARY: The Liberal Party is in its weakest position since its formation in 1944. Out of office in every state and territory, its local branches are in disarray, and it is divided on the extent to which it should abandon the Howard Government's policies. The Liberal Party's post-election analysis showed the main factors for its loss were the desertion of conservative blue-collar voters ("Howard Battlers") due to former Prime Minister John Howard's industrial relations reforms ("WorkChoices") and a perception that the Coalition was not focused on everyday pocket book issues that mattered to the average Australian. The Liberal Party has established reviews on its November 24 election loss, the adequacy of the party's constitution and its financial needs. For the Liberals to become competitive a major overhaul of the organizational wing of the party is required. There is even discussion among Coalition MPs over whether the Liberals and National should merge. END SUMMARY.

A TURN LEFT?

12. (SBU) Some moderate Liberal MPs believe the party shifted too far to the right under John Howard. ACT Liberal Senator Gary Humphries believes his party is "conspicuously out of touch" with present feeling on climate change, Aboriginal affairs and industrial relations. However, some observers maintain Malcolm Turnbull cost himself the leadership of the Liberal Party (ref A) by publicly supporting a national apology to Aborigines and the ratification of the Kyoto protocol. Liberals skeptical about a shift to the Left point out that Rudd adopted many of the Coalition's policies during the campaign. After former Health Minister Tony Abbott pulled out of the leadership contest, the majority of right-wing MPs threw their support behind Brendan Nelson, effectively delivering him the leadership. Therefore, he is likely to be attuned to their concerns. Abbott, in particular, is eager to defend the Howard legacy.

LIBS ASSESS THE DAMAGE

13. (SBU) On December 12, the Federal Executive of the Liberal Party met in Canberra to discuss the election. Federal Director Brian Loughnane said post-election polling indicated "Howard's Battlers" had deserted the Coalition largely due to WorkChoices and a perception that it was not focused on the day-to-day issues that concerned them. At the meeting, the Federal President, Ms Chris McDiven, announced she would retire in February -- after intense pressure from senior Party members. The Federal Executive will review the 2007 election loss, the adequacy of the Party's constitution, and its financial needs. Some Liberals believe it is quite possible that without reform and strong leadership, the party could collapse due to its internal dissension.

NEW SOUTH WALES SYMPTOMATIC OF THE STATE BRANCHES

¶4. (SBU) The Liberal Party's state branches have been plagued by factional warfare, and a lack of talent and money. It has not won a state or territory election in almost 10 years. That the New South Wales (NSW) Labor Government, generally regarded as incompetent, won the state election in March this year (ref B) is an indicator of the extent of the division of the Liberal Party in that state. It is still reeling from revelations that members distributed a racist flyer during the federal election campaign.

THE NEED FOR REFORM

¶5. (SBU) Despite the Liberal Party's constitution, which provides more autonomy to state branches than the Australian Labor Party (ALP), Howard and the Liberal federal secretariat QLabor Party (ALP), Howard and the Liberal federal secretariat were able to use their influence to calm dissension at the local level. However, with Howard gone and the Federal Liberals in opposition, there is potential for greater problems in the absence of structural and constitutional reform of the Liberal Party. Loughnane concedes such reform is necessary. Some Coalition MPs even believe the Liberals and the National Party should merge, arguing that this would lead to better allocation of resources and an end to "three cornered" contests featuring Liberal and National candidates competing in the same seats. In the Queensland seat of Forde during the recent election, there was a "leakage" of preferences from both the Nationals and Liberals to Labor (instead of to each other) which played a big part in the ALP winning the seat.

COMMENT: NELSON NEEDS TO STAND UP

CANBERRA 00001792 002 OF 002

¶6. (SBU) Without organizational change, the Liberals will likely not pose a threat to the ALP at any level. Presently, it is Nelson who is the biggest factor in whether the Coalition can be competitive at the next election. As the switch by Labor to Rudd demonstrated, leadership is a key vote changer. Although he has a tenuous hold on the leadership currently, Brendan Nelson could come across as a strong leader if he pursues reform. A big danger for the Liberals is that its liberal and conservative wings, while generally agreeing on economic issues, are bitterly divided on social issues. The Liberals are also in the paradoxical position of needing to differentiate themselves from the ALP - a party which has adopted many of the Liberal's key policies. In a recent Press Club address, Loughnane said that throughout the campaign the Coalition maintained its strong lead on the issue of economic management. With the unions, who had stayed quiet during the campaign, beginning to assert themselves and push Labor to the left, any economic turbulence could give the Coalition a glimmer of hope, if it can get its house in order.

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